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# **United Arab Emirates**

## **HRI Food Service Sector**

### **Report**

### **2002**

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#### **Report Highlights:**

**The HRI sector of the U.A.E. is very large and important to food importers and local producers. It consumes close to \$900 million worth of food products. U.S. food products are popular in the 5 star hotel class, particularly meats, poultry, juices and snack foods. The expanding U.A.E. hotel sector offers U.S. high quality food products ample opportunity to increase their share in this growing sector.**

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## **SECTION 1**

### **MARKET SUMMARY**

The United Arab Emirates (U.A.E.) is a rapidly expanding economy in the Gulf region with a population presently estimated at 3.2 million and GDP of around \$US60 billion in 2000. It is a federation of seven emirates with the two emirates of Abu Dhabi and Dubai contributing around 85% of the GDP, largely led by the former's oil revenues. The U.A.E. enjoys one of the highest world's per capita incomes, presently estimated at over US\$ 17,000, and is an active member of several organizations including the OPEC and the Gulf Cooperation Council (GCC)<sup>1</sup>.

The sunny nation lies within a sub-region of the northern desert belt, with scanty and erratic rainfall causing high levels of temperature and coastal humidity. The harsh climate makes farming difficult and production is limited. The sector of agriculture and fishing accounts for only 5% of the GDP and employs about 8% of the national labor force. The value of all agricultural production including fish, poultry, dairy, fruits and vegetables was estimated in 2000 at US\$ 2 billion, showing 4 percent growth above the previous year.

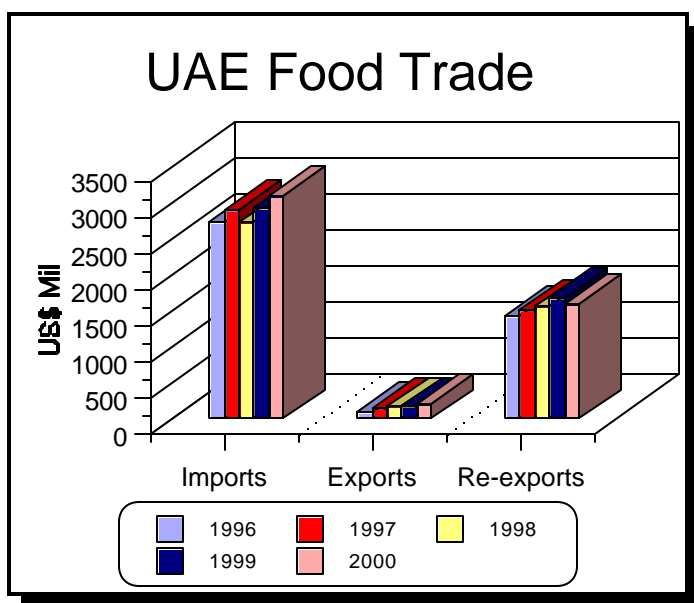
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The Gulf Cooperation Council (GCC) consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

For the reasons mentioned above, the U.A.E. depends heavily on the importation of foods to fill the gap between the country's requirements of food and the limited domestic food production. The Emirate of Dubai is considered the trade center of the U.A.E. and the Arabian Peninsula/Gulf region as a whole. Food re-exports from Dubai make their way northward to the former Soviet states and southward to the Indian Sub Continent and Eastern Africa. In the absence of accurate government data on re-exports of food, major food traders estimate that 50 percent of imported foods find their way to other re-export destinations. An increase in population and high growth in tourism have led to consistently increasing demand for imports. At the same time, dramatic changes in the lifestyle of the U.A.E. consumer in recent times as a result of 'Globalization' have led to an increase in demand for superior, high quality foods.

Major changes in lifestyle and consumption patterns in addition to rising incomes have paved the road to fast expansion in the quick service sector over the past decade. The growing number of fast food chains and restaurants in newly established shopping centers, hypermarket complexes and in stand-alone locations are evidence of this newly emerging demand. Hotels and restaurants are generally thriving based on the growing numbers of business and, increasingly, leisure tourists. On the other end of the HRI scale, a small number of large institutional caterers and a larger number of small caterers do brisk business servicing food service requirements in labor camps, offshore and onshore oil rigs, and some healthcare/educational institutions.



Several factors point to a continuing optimistic outlook for food service businesses:

- Increasing population of the U.A.E., rising by 4% annually.
- Consistent increase in the number of tourists visiting the U.A.E., especially Dubai.
- Continuing efforts to market Dubai, and now also other emirates such as Sharjah and Fujairah, for tourism, commerce and education.
- Growth in sectors such as education and healthcare in turn creating opportunities for food service businesses.
- Increasing time pressures on individuals in the work environment, leading to an increased propensity to dine away from home.
- Growing numbers of females in the labor force, contributing to an increasing need for home-meal-replacement options.
- The process of 'emiratization' bringing more U.A.E. nationals into the workforce, with greater

distribution of wealth.

Total domestic consumption of food and food products in the U.A.E. was estimated at US\$3.5 billion in 2000. It is noted that the local food processing industry is steadily growing, primarily in the areas of dairy products, reconstituted juices, biscuits and other snacks and meat processing. 25% of total domestic consumption is estimated to be in the HRI sector, equivalent to about \$900 million.

Tourism is a relatively new, yet important source of income for the U.A.E. economy. The number of visitors was estimated to exceed 3 million in 2000. A large number of modern, luxury hotels have been built over the past 10 years to meet the increasing demand for hotel rooms. Nearly 45 luxury 5 stars hotels are currently operating in the country, with a concentration in the emirates of Dubai and Abu Dhabi. Additional, less opulent hotels have also been built increasing the room capacity in the U.A.E. to 34,110 rooms across 354 hotels. Dubai has the lion's share with 280 hotels, and almost every major international hotel chain is represented. Consumption in this sub-sector is estimated at US\$300 million.

The number of stand-alone restaurants exceeded 7,000 in 2000, serving both residents and tourists and is growing by nearly 5% every year. In the course of the 1990's and into the new millennium, a number of U.S. quick service restaurants franchises and other food service establishments like coffee and speciality dessert purveyors have also entered the market. Consumption in this sub-sector is estimated at US\$150 million.

The institutional catering segment is crowded with registered companies, close to 50 in the U.A.E. alone. However, only a handful are especially active and dominate the sector. This segment serves traditional institutional needs and the needs of a large expatriate population living in labor camps across the country. One estimate is that there are as many 1,000,000 workers fed in the UAE via catering each day. Sub-sector consumption is estimated at about US\$500 million.

The U.A.E. is the second largest market in the GCC for U.S. food products after Saudi Arabia, accounting for just over 35% of total U.S. food imports into GCC. Given that the UAE does not levy any tariffs on food and import processing is rated as being very efficient, it is the preferred entry point for the region.

**Table 1**  
**Opportunities / Threats for U.S. Exporters – U.A.E. Market**

Opportunities	Threats
1. Continuing growth in tourism implies greater demand for imported products.	1. Aggressive marketing by European and Far East Asian countries has enabled them to capture sizeable market share over the years
2. U.S. products are recognized as high quality products.	2. High, inflexible U.S. prices compared to European and Asian products.

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|--|--|
| 3. Popularization of American culture is translating into increased demand for American products.            | 3. Imports from the U.S. entail high freight charges owing to the large distance from the U.A.E.                                   |
| 4. American fast food and casual dining chains are popular and hold significant market share.                | 4. Emergence of non-U.S. franchised food service outlets in recent times and wavering calls to boycott U.S. products.              |
| 5. There are minor trade impediments facing imported food products, and no customs tariffs on food products. | 5. Shelf life requirements, the need for Arabic language labeling, statutory requirement of production and expiry dates on labels. |

## **SECTION II**

### **ROAD MAP FOR MARKET ENTRY**

#### **A. Entry Strategy**

The easiest and most commonly used method to enter the market is through a local importer/distributor, utilizing his knowledge of the local market, established trade contacts and existing distribution set-up and channels.

Once a customer is assigned, it is highly recommended to provide your importer with adequate promotional support in this competitive trade environment. This will assist your customer to gain a foothold in the market.

Participation in local food shows, particularly Gulf Food (to be held in Feb, 2003) has proven to be a vital tool to promote/introduce your products. It is also seen as a cost-effective and quick means to obtain market exposure.

New to market U.S. companies need to understand prevailing food import and labeling requirements for this market. They are available in the latest update of the U.A.E. "Food and Agricultural Import Regulations and Standards (FAIRS)". It is available on the USDA/FAS web page "[www.fas.usda.gov](http://www.fas.usda.gov)". The following are short guidelines:

- Meat and poultry products have to be Halal (slaughtered in the Islamic way);
- U.S. products are perceived to be of good quality, yet they are premium priced products. In part, this is related to the high freight rate from the U.S. to the Gulf. While many food service operators prefer to utilize high quality products for their operations, price can be a deterrent. U.S. beef is a perfect example; end users prefer it for its high quality but many refrain from using it for concern that it will increase their operation costs. U.S. beef consumption would be greater if U.S. exporters were able to supply some products at more competitive prices.
- Longer freight times can affect the shelf lives of many products, particularly perishables.
- Finally, U.S. exporters will sell more if they are able to entertain orders for full container loads of mixed products.
- U.S. exporters also need to keep in mind statutory local requirements – Arabic labeling, printing both production and expiry dates on product labels. [Note: English only labels are currently accepted].
- U.S. exporters are generally seen to be 'inflexible'. Importers indicate this may be because of the small size of the U.A.E. market.

All in all, U.S. exporters need to make an effort to understand the market. The perception among importers in the U.A.E. is that this market has not attracted sufficient attention and/or understanding from U.S. exporters.

## **B. Market Structure**

Specialized importers are the main source of food products for the food supply chain. In turn, wholesalers purchase the products from the importers. In many cases importers act as wholesalers and distributors in addition to their sales to wholesalers. The HRI sector represents an important target market for food companies whether they are importers, wholesalers or distributors.

Even though most of the major importers/suppliers carry a wide range of products that any single HRI organization would need, it is highly unlikely to find that any of the HRI companies would limit their dealings to only one supplier. They all prefer to deal with more than one source to benefit from the competitive environment and be able to secure a diversity of products.

In certain cases, end-users import products directly from the source, if economically feasible. However, only a limited number of companies have the logistics and infra-structure to do so owing to the large investment in specialized storage, related equipment and trained manpower that is normally required. Moreover, a minimum volume of demand is necessary to justify importation from overseas. On a related note, it is worth mentioning that certain restaurant concepts rely on specified importers to directly import their food product requirements.

## **C. Sub-Sector Profiles**

### **C1. Hotels**

The United Arab Emirates and particularly the Emirate of Dubai have taken serious and active steps to get on the world map for tourist destinations. Tourism is increasingly becoming an important factor in reducing the U.A.E.'s non-oil trade deficit. The contribution of tourism to non-oil GDP is currently estimated at 15 percent. In this regard, the Government of Dubai has been implementing a very ambitious plan including the construction of a number of luxury hotels, resorts, restaurants and furnished apartments.

Focused worldwide promotions have been very instrumental in this success story. Along with annual professional world-class mens and womens tennis tournaments, a European PGA Tournament, the world's biggest thoroughbred horse race purse, an exhausting range of shopping venues, and clean beaches with a carefree security environment, regionally speaking, the U.A.E. has a lot more going for it than do other countries. As a result, the U.A.E. hotel industry has witnessed a massive growth and hotel capacity has quadrupled during the past decade. This was topped by the opening in late 1999 of the first 7 star hotel in this part of the globe, the Bourg Al Arab "The Arab Tower". It is now a famous land mark and visited by thousands of visitors yearly.

The number of hotel rooms across the U.A.E. is currently estimated at 34,000 in 354 hotels. Along with capacity in short-lease apartments, this gives the U.A.E. the second largest tourist

accommodation capacity in the Middle East after Egypt. Dubai is the star in the U.A.E. tourism firmament, with 280 hotels and almost 22,000 rooms. According to industry sources, the next three years will witness the addition of 4,000 new hotel rooms and apartments, in the superior/deluxe categories.

**Table 2 - Growth in Dubai's Hotel Industry**

	<b>1995</b>	<b>1997</b>	<b>1999</b>	<b>2001</b>	<b>2003*</b>
Number of rooms	12,727	14,223	18,638	21,955	24,324

*Source : Department of Tourism & Commerce Marketing, Dubai*

*\* DTCM projections*

In addition, there are 110 fully-serviced, furnished apartment complexes in the U.A.E. offering 6,400 rooms, led also by Dubai with 99 apartments and 5,600 rooms. This complements the accommodations offered by hotels. Most complexes are serviced by a restaurant for guest dining.

**Table 3 - Existing Hotel Chains in U.A.E.**

<b>Chain Name</b>	<b>No. of Hotels</b>	<b>Hotel Locations</b>
Sheraton	7	Abu Dhabi, Dubai
Hilton	8	Abu Dhabi, Al Ain, Dubai, Fujairah, Ras al Khaimah
Hyatt	1	Dubai
Intercontinental	3	Abu Dhabi, Al Ain, Dubai
Marriott	5	Dubai
Le Meridian	5	Abu Dhabi, Dubai, Fujairah
Holiday Inn	3	Dubai, Sharjah
Crowne Plaza	2	Abu Dhabi, Dubai
Jumeirah International	5	Dubai
Fairmont	1	Dubai
Rotana.....	11	Abu Dhabi, Dubai, Al Ain, Sharjah

The food and beverage departments of the hotels are major consumers of food products, particularly imported products. Reliable sources estimate the contribution of the average hotel's food service facilities to the establishment's revenues at 40-50 percent, depending on the class of the hotel. Hotels mostly buy their requirements from the local market which makes them prime customers for food and beverage importers and distributors. The executive chefs of the hotels have a predominant voice in the selection of food products which are consumed in the hotels. Thus, they are a prime target for food distributors and trading company representatives.

It is estimated that U.S.\$300 million worth of food and food products were consumed in this sub-sector in 2000, expected to grow by at least 10% annually over the next 5 years.

## C2. Restaurants

Across the U.A.E., there are presently over 7,000 eating establishments, varying between top of the line international class restaurants, cafeterias and quick service restaurant chains. In Dubai alone 4,000 registered eating places were counted in 2001. Statistics show that nearly 400 new units have been added every year in the past 5 years, whether it is a small wayside cafeteria or elegant hotel restaurant. Residents of the U.A.E. have a wide range of cuisines available to them when dining out, particularly in Dubai.

By law, restaurants that are not part of any hotel premises are not permitted to serve liquor. Units tend to focus on quality of food, service, and price. This sector has seen a massive influx of international franchises, led by the U.S. concepts, in the past 4-5 years. Definable operating segments include: cafés, family full-service casual dining, and pizza/ chicken/sandwich.

Estimated annual sales figures across some prominent franchise operations are:

**Table 4 – U.A.E. Café Segment**

<b>Franchise</b>	<b>Annual Sales (U.S. \$ million)</b>	<b>Number of U.A.E. outlets</b>
Starbucks	4.75	18
Costa	2.9	6
Gloria Jeans	2.0	4
Dome Café	1.35	3
Seattle's Best Coffee	2.0	4
Saint Cinnamon	0.55	2
Cinnabon/Seattle's Best	1.0	6
	(Opened 6 months ago)	
Coffee Bean & Tea Leaf	(Recently opened)	
Big Apple Bagel/	Just opened in 05/2002	

**Table 5 – U.A.E. Family Full-Service Casual Dining**

<b>Franchise</b>	<b>Annual Sales (U.S. \$ million)</b>	<b>Number of U.A.E. outlets</b>
TGI Fridays	2.8	3
Chilis	3.9	5
Coco's	1.6	2
Bennigans	1.2	1
Fuddruckers	1.9	2
Kenny Rogers	1.0	2
Pizzeria Uno	1.9	2
Automatic (Lebanese chain)	7.0	9

**Table 6 – Quick Service**

<b>Franchise</b>	<b>Annual Sales (U.S. \$ million)</b>	<b>Number of U.A.E. outlets</b>
McDonald	20.45	28
Burger King	8.03	7
Hardees	3.0	13
Subway	3.2	12
A&W	2.75	7
KFC	23.75	36
SFC	2.95	10
Al Tazaj – Saudi chain	1.64	2
Pizza Hut	12.77	18
Pizza Inn	3.65	11
Pizza Express	1.1	6
Pizza Corner	0.5	2
Dominos Pizza	1.0	2
Round Table Pizza	0.73	3

In 1999, the Dubai based Emirates Petroleum Products Co. (EPPCO) became a franchisee of the U.S.-based Orion Food Systems chain of fast food outlets. Orion brands include Mean Gene's Burgers, Chix Chicken and Hot Stuff Pizza and have since opened outlets at EPPCO service stations. Other Orion brands – Eddie Peppers, MacGregor's Sandwiches, Smash Hit Subs are to expected to start operation in the U.A.E. in the near future. Interestingly, this concept of making service stations more than just a place to buy gasoline is still underdeveloped in the region, particularly in Kuwait and Bahrain. It is estimated the restaurant sub-sector of HRI consumed U.S.\$150 million worth of food and food products in 2000, expected to grow by 7-10% annually over the next 5 years.

### **C3. Institutional Catering**

Experts in this sector divide it into in-flight catering and industrial catering.

1) In-flight catering: This sector is dominated by two major companies serving the U.A.E. airports. It is reported that nearly 100,000 in-flight meals are prepared every day. Meal cost prices range between \$5 and \$40, depending on the class of the passenger and length of the flight. U.S. products are generally in demand for this sector.

2) Industrial catering: This sector is handled by a large number of registered catering companies, close to 50. Nearly 75 percent of this sector is monopolized by one company which is based in the Abu Dhabi, the U.A.E. capital. Four other companies capture an additional 20 percent while the remaining 5 percent is serviced by the rest of the companies.

This sector serves offshore and onshore oil rigs, corporate catering, company cafeterias, hospitals, universities, schools, labor camps, clubs and prisons. It is reported that more than one million meals

are prepared daily. Industrial catering meal prices vary between \$1.5 and \$25, depending on the class of customers served. The concentration of the business is in the emirate of Abu Dhabi where nearly 90 percent of the institutional catering takes place. Overall, this is close to \$500 million market.

Institutional caterers typically require very competitive prices because of the competitive margins in the industry. Their ability to negotiate is based on the large volumes involved. Generally higher priced U.S. products are less popular with this sector. Caterers feel that business profitability is reduced if they use U.S. products because of the comparatively higher costs.

Shipchandling is a major activity within this sector, with one dominant player, 5 slightly smaller companies, and many more smaller ones involved in servicing the specific needs of specialist groups such as the U.S. and other naval contingents, freight and cruise liners. With U.S.-source requirements, there is a significant market for U.S. products for the U.S. Navy, and estimates of the annual current value of this business via Dubai are close to \$65 million.

### **SECTION III**

#### **COMPETITION**

The HRI market in the U.A.E. is extremely price-sensitive. Therefore, high-priced U.S. products face a distinct disadvantage. U.S. beef falls in a class of its own for its well known high quality. Other beef imported from India, Australia, New Zealand and Argentina are recognized as being of a lower quality compared to U.S. beef.

Some U.S. canned vegetable and fruit products have been facing strong competition from Thailand, Greece and Italy in recent times. In addition to their being marketed aggressively in the local market, products from these countries offer a price advantage over U.S. products though they are acknowledged to be of inferior quality. They fit within the low cost of meals in the catering sector.

For poultry, Brazil, France and Denmark dominate the market for whole chicken, because U.S. chicken is not price competitive. U.S. chicken leg quarters which were introduced in the past few years to this market are gradually being accepted for their low cost, high quality and good yield.

Although there is growing local production of tomatoes, cucumbers, strawberries and dates, among other fruits and vegetables, most of the fresh fruits and vegetables consumed in the HRI sector are imported from nearby countries such as Iran, Syria, Lebanon, Egypt, Saudi Arabia, Turkey, Jordan, the Indian Subcontinent and several African countries. The U.S., Chile, the Netherlands, Australia and New Zealand are the principal suppliers of high quality products that are in demand for business travelers and executive type customers and luxury hotels. The cost of air transporting highly perishable U.S. products makes them more costly compared to competing products imported from Europe. Some fresh fruits and vegetables however have a comparatively longer shelf life such as apples, pears, onions and carrots, and hence can be imported profitably from the U.S.

Apples and pears from the U.S. are very popular in this market and continue to capture good market share for their high quality and long shelf life.

Several importers noted that U.S. companies do not appear to make strong efforts to market their products in the U.A.E., particularly when compared with aggressive marketing undertaken by exporters from European and Far East Asian companies.

As mentioned previously, a simple and direct way to learn who local and regional buyers are can be accomplished through participation in the biennial Gulf Food show. Personal visits and face to face meetings with local importers, and developing personal relationships are also seen as vital elements for business development and success in the U.A.E.

As perceived by the trade, lack of interest leaves U.S. suppliers with limited knowledge of the requirements of the local market. This includes demand for small quantities of many products that are of interest to local importers, price sensitivity of the market, specific requirements in product labeling, all of which are integral to doing business in the U.A.E.

## **SECTION IV**

### **BEST PRODUCT PROSPECTS**

#### **A. Products present in the market, which have good sales potential**

***Poultry and Poultry Products:*** Brazil, France, China and Denmark are the key players in the supply of whole chicken and other poultry meat products. With regard to chicken parts, U.S. products, basically drum sticks and leg quarters, are favored. Attention to regulatory requirements – freezing whole birds/parts individually, labeling considerations; and sensitivity to local pricing considerations could strengthen U.S. presence in this product segment.

***Canned Fruits:*** The U.S. exports considerable quantities of canned fruit to the U.A.E., and is facing stiff competition from Italy, Greece and Thailand, which have come into the market with lower priced products. A marketing effort such as focus on price-quality relationships could help consolidate U.S. position in this product category.

***Juices:*** Branded U.S. juices are present in good quantities in the U.A.E. market, but more and more, locally reconstituted juices are taking over market share. In addition, there are supplies from Saudi Arabia, South Africa and Cyprus. Florida Bluebird, Florida's Natural and Ocean Spray are some of the brands present in the market. Again, marketing efforts would strengthen the price-quality relationship of U.S. brands.

***Frozen Vegetables:*** U.S. brands such as Green Giant and Ore-Ida have traditionally done well in terms of frozen corn and frozen french fry imports. These brands now face stiff competition from Canadian products such as McCain Foods, that has had a Dubai regional marketing office for a number of years to look after its products. Moreover, Belgium, Holland and Denmark supply most of the demands of this sector.

***Condiments:*** U.S. companies dominate the franchised restaurants market. These franchises

spearhead the demand for condiments from the U.S. The U.S. is a major supplier to the local market and with growth in the restaurant business it could grow even further. U.S. brands such as American Garden, Ken's Steak House, Heinz and Hunt's are presently in the market.

***Sauces:*** U.S. products in this category are present in the market and command good market share. Different types of U.S. sauces particularly hot sauces are in great demand by the HRI sector.

***Almonds:*** U.S. almonds are second to none in the U.A.E. market. They are in great demand, particularly shelled, diced and sliced, in hotels, bakeries, catering companies, pastry shops and restaurants. Iran supplies a much smaller quantity of almonds, but the quality of U.S. almonds surpasses that of either Iran or Spain, the other suppliers .

***Cake mixes and specialty flours:*** These products are popular among pastry and bakery chefs for their high quality.

***Vegetable Shortening:*** U.S. products are popular for their stability particularly when it is used for frying at fast food restaurants.

#### **B. Products not present in significant quantities, yet have good potential**

***U.S. Beef:*** 5-star and 4-star hotels, high-end restaurants and clubs are required to maintain a certain image. Thus, many are regular consumers of U.S. beef. Price is not an insurmountable barrier here as the consumer is willing to pay for the quality. Growing tourism and projected growth in the deluxe hotel sector in the future should result in increasing demand for U.S. beef. India, Australia and New Zealand are the key players in the market. BSE and Foot and Mouth Disease have forced the European beef suppliers out of the market much to their dismay, particularly Irish meat exporters. This is a good time for U.S. beef suppliers to introduce different grades of U.S. beef that could compete in the U.A.E. market. The value of U.S. beef exports to the UAE reached a record level of close to \$7 million in 2001.

***Bakery Ingredients:*** Competition from European and Australian products in this line are intense. U.S. market share may increase U.S. suppliers put more emphasis on marketing and good customer service in this market.

***Lobsters and other seafood products:*** Lobsters from Maine are well known for their high quality and high price. Live lobsters are in good demand, but Canadian and Australian products are popular for their low prices.

***California wines:*** There is good potential for California wines in this market. Lack of interest from U.S. suppliers coupled by a lack of knowledge of available types and names on the importers side are the main reasons for the limited market share in this market.

**C. Products not present because they face significant barriers**

Being an Islamic state with a local and large expatriate Muslim population, the market for pork and pork products is essentially limited to non-Muslim consumers. There is no market for 'kosher' food as such. The market for U.S. fresh vegetables does not exist, except for carrots and some white onions. High freight rates and perishability make U.S. fresh vegetables not competitive with similar products imported from neighboring countries.

**SECTION V****POST CONTACT AND FURTHER INFORMATION**

If you have any questions or comments regarding this report or need assistance exporting to the United Arab Emirates or the other markets covered by this office (Bahrain, Kuwait, Oman and Qatar), please contact the U.S. Agricultural Trade Office in Dubai at the following address:

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